

A close-up, shallow depth-of-field photograph of a stack of books. The top book has a blue cover with some faint text. A red ribbon bookmark is visible, tucked between the pages of the top book. The background is a soft, out-of-focus blue.

EESC Hearing on the European heavy printing industry, 8 March, 2010

Spotlight on the Print Media Industry from a manufacturer perspective

Dietrich Firnhaber, SVP Corporate Development

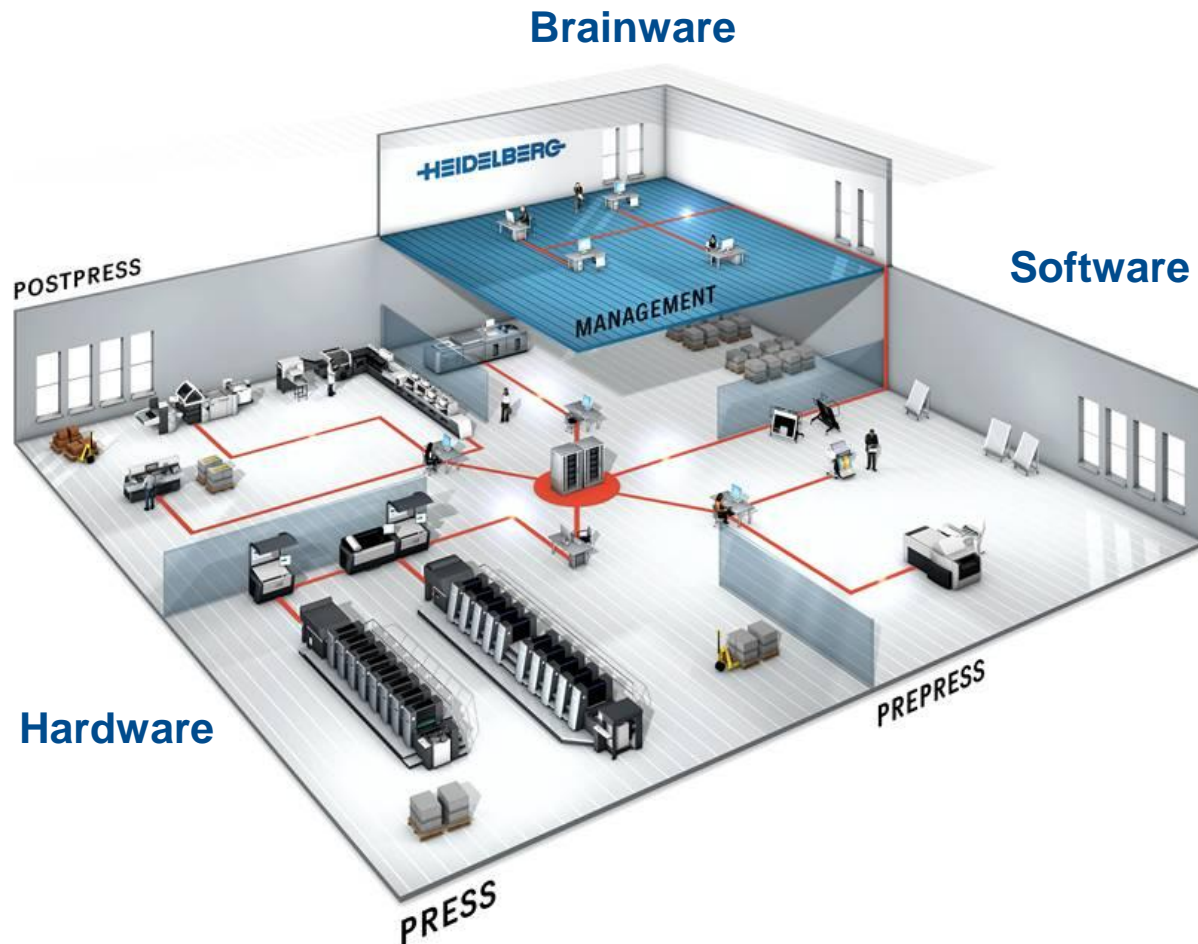
HEIDELBERG

Spotlight on the Print Media Industry during the crisis

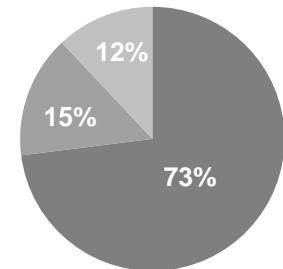
1. Company profile
2. Company key figures
3. Market changes in the crisis
4. Assumptions on the recovery
5. Recommendations

1. Company profile
2. Company key figures
3. Market changes in the crisis
4. Assumptions on the recovery
5. Recommendations

Heidelberg is the full solution provider for 240,000 printers in the print media industry



Our Customers



- < 20 employees
- 20-49 employees
- > 50 employees

Heidelberg offers an integrated product portfolio

Consumables:

Own brand “Saphira” offers a broad and ecologically sound portfolio



CtP:

Violet and thermal for all formats

Service:

most closely knit sales and service network of the industry.

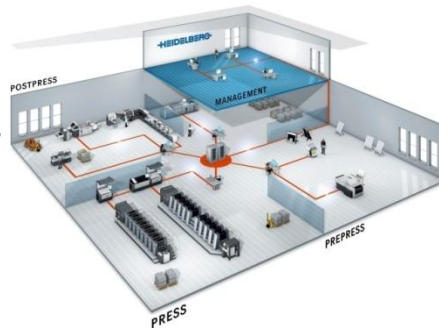


Press:

Sheetfed offset presses in five formats (35 x 50 up to 120 x 160) and flexo presses

Prinect Workflow:

integrates all management and production processes of a print shop – optimised processes



Finishing:

Diecutting, embossing, gluing; folding, binding, stitching; cutting

Worldwide, Heidelberg has 14 production and F&E sites with the major sites being located in Germany



1. Company profile
- 2. Company key figures**
3. Market changes in the crisis
4. Assumptions on the recovery
5. Recommendations

Our data reflect the severe downturn of the Print Media Industry during the economic crisis

Performance over the last three financial years – key figures

- **Sales** decreased from 3,803 m€ in FY07 over 3,670 m€ in FY 08 to 2,999 m€ in FY09
- **Net profit** developed from 263 m€ (FY07) to 142 m€ in FY08 and -249 m€ in FY09.
- **Share price** reached 34.30 € in FY07; 17.01 € in FY 08 and was at 3.64 € in FY09 (end-of-year course each)

Debt structure

- Impacted by the financial crisis, our mid-term to long-term debt structure turned into short-term
- In summer 2009 we refinanced 1.4 bn€ with the support of the governmental Economic Recovery Program II

1. Company profile
2. Company key figures
- 3. Market changes in the crisis**
4. Assumptions on the recovery
5. Recommendations

The industry is experiencing a stronger equipment downturn than in the previous crises

- In the previous crises (Asia 1997/98, Dotcom 2000/01), severe downturns were followed by a swift recovery. The current crisis is stronger than any other downturn experienced so far
- GDP, Print production volume and Sheetfed equipment market are correlated
- In 2009, the Sheetfed equipment market declined to c. 50% of the 2007 size
- The strongly cyclical German printing machinery industry saw a 60% decline in order intake (Q2/2009 vs. Q2/2008) – compared to the 30-40% during the Asian and Dotcom crises
- We expect a slow recovery in 2010 and 2011, following a U-shaped GDP curve
- In our scenario, in 2013 the equipment market will have regained strength but not to full extent

Market and competitive environment

Market

Financial crisis has significantly impacted global printing machinery market to date

- Publishing/Advertising equipment has shown considerable sales decline in 2008 and 2009
- Packaging and After-sales businesses have proven less cyclical

Key market trends have partially offsetting effects on overall printing equipment market

- Online substitution and trend to higher press efficiency and productivity reduce market size
- Technical substitution between printing technologies leaves market size unchanged
- Customer trend to value-add/quality increases market size

Customer

Key market trends can be identified within in the global printing machinery market:

- Customers demand for higher efficiency and value-add/quality in printing equipment
 - Efficiency and productivity is improved through printing speed increase of presses, makeready time reduction and larger formats
 - Value-add can be realized through personalized Digital or Hybrid Offset/Digital printers
 - Quality increase results from Multi-Color and Coatings

Customer and technology trends

Competition

Competitive environment

- Printing equipment companies have shown strong development in '02-07
 - Offset players with significant margin improvement following '02/03 trough
 - Digital players with stable high margins and sales as result of increased competition
- Financial crisis has significantly hit Offset players; Digital players only partly
 - Companies have reacted with implementation of countermeasures

Technology

- **Technical substitution reflects the continuous development of technologies, which shifts volumes in between technologies**
 - Blurring boundaries and growing overlap between Sheetfed and Digital
 - Increasing convergence within Offset printing (SF vs. Heatset, Coldset vs. Heatset)
 - Developing Heatset width threatening Gravure
 - Mutual substitution between technologies in Packaging
- **Online substitution reduces printing volumes**

1. Company profile
2. Company key figures
3. Market changes in the crisis
- 4. Assumptions on the recovery**
5. Recommendations

The recovery of the Sheetfed Offset Equipment market – a U-shape?

Forecast until 2013

- Market decline in 2009 to **~50%** of market size in 2007
 - Ifo-Index and market experts clearly indicate that crisis will bottom in 2009
- Slow recovery in 2010 and 2011
 - Following 'U'-shaped GDP curve
- It is assumed that the recovery in 2013 reaches **~ 80%** of the 2007 **equipment market** size
 - Assumed CAGR of - 4.0% 2007-2013
- The assumed recovery in 2013 of the **print production volume** (PPV) will reach **~ 102%** of the 2007 size
 - Assumed CAGR of 0.3% 2007-2013

1. Company profile
2. Company key figures
3. Market changes in the crisis
4. Assumptions on the recovery
- 5. Recommendations**

„Wishlist“ – the printing industry needs to remain a profitable player in Europe

- In order to maintain a strong and profitable printing industry, printers need to diversify and extend their offering
- Keeping a strong European manufacturer base as an innovation and business partner is key for prosperity
- Cooperation between all partners and on all levels will be indispensable to master the challenges of the changes the industry is witnessing
- Affordable financing debt and equity
 - To enable print shops to act in an entrepreneurial way and get back to sound profit levels, banks need to support them with reasonable credit lines and investment support.